

# Flash Financial Systems

Household and business deposits increase while promissory notes decline. Growth in deposits from outside the eurozone.

Total deposits at Spanish credit institutions rose by €7bn in September, fuelled mainly by deposits from outside the eurozone (€7bn). Spanish household and business deposits, key for assessing a potential deposit run, increased slightly (€3bn) in the month. The removal of the penalisation on high-interest deposits in September has caused the balance of promissory notes held by households and businesses to drop by €16bn, partly replaced by deposits.

- **A breakdown by agent of deposits received by Spanish credit institutions was released today.** The Bank of Spain has published chapter 8 of its Statistical Bulletin, which includes the breakdown of financial statements harmonised at euro area level used by the ECB in its series.
- **The €7bn increase observed in September** can be split between Spanish residents (+€2bn), euro zone residents (-€1bn) and the rest of the world (+€7bn). An improvement in appetite for operations with Spanish banks may be emerging for the latter group. The best way to assess a potential deposit run is to analyse the trend marked by domestic households and businesses. It is also important to distinguish between instruments, as the repo market – largely interbank – is fairly volatile from one month to the next.
- **In September domestic deposits increased by €2bn, but figures were significantly uneven between agents:** MFIs (credit institutions) -€32bn, public administrations +€19bn, non-monetary financial institutions and insurance companies +€11bn and households and businesses +€3bn.
- **When analysing this figure it should be kept in mind that 40% of the total balance of “Other Resident Sectors” includes positions other than deposits from non-financial businesses and households.** Deposits from credit institutions, non-monetary financial institutions and public administrations are more volatile than other deposits and depend on treasury or other types of conditions which are not relevant for an assessment of a potential deposit run in Spain.
  - The main reason for the €11bn rise in deposits from non-monetary financial institutions this month is the increase in deposits from Spanish central counterparty institutions which rose €11bn. These are repos related to interbank funding.
  - Deposits from securitisation funds and companies increased by €3bn, which could suggest a slowdown in the trend of substituting securitisations for bonds as ECB collateral, seen in the past few months. ECB financing decreased by €30bn in September, partly due to the partial re-opening of the markets.
  - Deposits from preference shares issuers and other non-monetary financial institutions grew by €1bn.
  - In contrast, deposits from CII (investment funds excluding money market funds) in credit institutions were down by €5bn.
- **Deposits from Spanish households and businesses increased by €3bn in the month** (+€0.2bn seasonally adjusted). According to our estimates, the outstanding balance of promissory notes in the hands of households and businesses declined by €16bn in September, due mainly to the change in extraordinary contributions implemented by the Deposit Guarantee Fund (DGF) on high-interest deposits, while the aggregate of deposits and promissory notes fell by €12bn in September. The year-on-year decline of €21bn seen in September implies a fall of 2%, consistent with prevailing economic conditions and the current deleveraging process. The Memorandum of Understanding signed by Spain requires a strict regulation of retail distribution of products not covered by the DGF indicating that promissory notes will continue to be substituted by deposits over the next few months.

Table 1

**Deposits**

		Outstanding balance		Month-on-month change		Year-on-year change	
September 2012		Aug-12	Sep-12	September 2012	September 2012	September 2012	September 2012
				(€bn)	%	(€bn)	%
<b>Bank of Spain</b>	<b>Total deposits (a)+(b)+(c)</b>	2,495	2,502	7	0	0	0
	<b>Total deposits Spain (a)</b>	2,131	2,133	2	0	166	8
	Credit institutions	641	610	-32	-5	307	101
	Public administrations	31	49	18	56	14	40
	Other resident sectors - Spain (1)	1,459	1,475	16	1	-155	-9
	NMFIs	500	510	11	2	-101	-16
	Insurance companies	49	50	0	1	-1	-2
	Other public administrations	24	26	2	6	-0	-1
	<b>Non-financial companies (4)</b>	179	180	2	1	-28	-14
	<b>Households (5)</b>	707	709	2	0	-25	-3
	<b>Total deposits – eurozone (b)</b>	176	175	-1	-1	-95	-35
	Credit institutions	142	142	0	0	-44	-24
	Public administrations	1	2	1	142	2	354
	Other resident sectors - eurozone (2)	33	30	-3	-9	-52	-63
	<b>Total deposits - RoW (c)</b>	187	194	7	4	-77	-28
	Credit institutions	131	134	3	2	-24	-15
	Public administrations	0	0	-0	-19	-1	-83
	Other resident sectors – RoW (3)	57	60	4	7	-52	-46
<b>BBVA:</b>	<b>Promissory notes - households and businesses (6)</b>	64	49	-16	-24	32	190
<b>ECB</b>	<b>Deposits – Other resident sectors – eurozone (1)+(2)</b>	1,492	1,505	13	1	-207	-12
<b>Promemoria:</b>							
<b>Deposits and promissory notes – households and businesses (4)+(5)+(6)</b>		950	938	-12	-1	-21	-2

Source: BBVA Research based on Bank of Spain data

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